Santander Asset Management

Santander GO Global Equity ESG

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Fund commentary

Market developments

On the last trading day of the month, Fed chair Powell's speech was interpreted as slightly "dovish", or at least one that signals the end of the tightening cycle. This spurred another risk-on rally, resulting in an overall positive return for global equity markets in November. Earlier in the month we already saw an unexpectedly positive CPI print followed by a confirmatory lower PPI print, readying the market for some inflation relief. In combination with large sums of stock buybacks, systematic (short) covering in illiquid markets and glimmers of a China re-opening, this triggered a large factor rotation in favor of growth. Beneath the surface, at various points 'old economy' cyclicals and year-to-date laggards led the way up, resulting in a shift in market leadership away from defensives and mega caps, in general. We acknowledge the change in tone around rate hikes and the China narrative will help stocks find their way up, but we are also cognizant of many companies still operating at peak margins and a global consumer environment that sooner or later will face headwinds. We, therefore, believe it's still too early to join the fanfare as market valuations do not correctly reflect the unfavorable mix of global growth and inflation that lies ahead. Hence, with risk premia relatively low, especially after the recent relief rally, we remain up the Quality curve and stay selective on adding pro-cyclical exposure.

Largest holdings

The top holdings in the portfolio are still roughly the same, with our largest active position being US pharma company Eli Lilly & Co., which is regarded as one of the strongest innovators in the pharma space, reflected in a very promising drug pipeline, particularly on Alzheimer's disease. Our second largest active weight is AstraZeneca, enjoying one of the strongest product pipelines in pharmaceuticals, while at the same time having low risk to patent expiries. UnitedHealth completes our top-3 active positions, a US health insurer leading the charge in providing value-based care within the US healthcare system.

Performance

From an absolute perspective, returns were positive in November. However, from a relative point of view less so, with our strategy underperforming the benchmark. Year-to-date the strategy is running a flat performance compared to the benchmark. Strong stock picking in the Technology and Energy sectors where offset by a rotation out of Healthcare, in particular, where we still have an overweight position. Also our underweight position in the Financials sector worked against us as banks had a strong run during the month. The main positive performance contributor in November was microprocessor maker Advanced Micro Devices (AMD), driven by the launch of its promising new EPYC processor which likely secures more share gains from rival Intel going forward. Beverage can maker Crown Holdings also rebounded significantly after activist Carl Icahn announced an over 8% stake in the company, boosting hopes more value can be extracted over time. Pharma company AstraZeneca enjoyed a strong month after a string of positive news flow around positive late-stage trial readouts for several pipeline drugs, particularly related to oncology. On the flipside, we saw the managed care names UnitedHealth as well as Elevance Health detracting from performance, which seemed more related to an unfavorable sector rotation effect rather than company specific news flows. In fact, UnitedHealth actually held an upbeat Investor Day, where it laid out a very convincing roadmap for future earnings growth for both its health benefits and Optum divisions. During November, Cheniere Energy also underperformed, mainly attributed to an in-line set of results rather than the usual beat and raise the market was getting used to, but also a milder winter leading to lower natural gas prices.

Portfolio Changes

We made several changes in November. First of all, we threw in the towel on Zebra Technologies and instead switched into Keyence, a Japanese a high quality pure-play automation company. Even though Keyence is not a cheap stock based on multiples, we do like Keyence's flawless track record, its unique innovation-driven culture and very high returns on capital. Zebra Technologies, on the other hand, continues to experience execution issues and a deteriorating outlook for a large part of its customer base in consumer-oriented verticals. Secondly, we also trimmed positions in both Microsoft and Alphabet to start a new position in Motorola Solutions, which we like as a differentiated data communications company with a strong return profile and exposed to defensive end-markets. In November, we also took some weight out of the Healthcare sector and redirected proceeds to several semiconductors stocks including Nvidia and AMD. Finally, we also started to build a position in high quality apparel and sportswear bellwether Nike Inc., where we see strong upside potential and a good indirect way to play a potential China re-opening.

Management expectations

With market valuations not close to depressed levels, it's hard to get overly excited at this stage, especially with global growth slowing and central banks still in tightening mode. Too many pockets in the market have not seen real multiple compression, meaning earnings risk remains to the downside as we enter 2023. The one step forward, one step backward nature of the market is reflected in the narratives around Fed rate positioning, the potential end to the Ukraine war and China re-opening, which all keep oscillating between hope and fear. Moreover, with the summer glow and post Covid revenge spending now behind us, we're not convinced only green pastures lie ahead. China is far out of the woods as it comes to Covid, a welcome mild winter obscuring Europe's energy woes for now, while industrial and consumer sentiment indicators still pointing south, to name a few party spoilers. Yet, the market seems to be sniffing out any incremental change for the positive, reflected in the hope-driven price actions as of late, which is of course something we have to be aware of too with our strategy. Therefore, we stick to our barbell approach where we can quickly shift gears if needed to. Portfolio robustness, however, is key and achieved by focusing on a diverse mix of quality companies with strong operational track records.